



# **Report of the Finance, Strategy, and Rates Committee**



# Budget



# Strategic Plan Link to 2008 Budget Initiatives

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## Strategic Dimensions

## 2008 Budget Initiatives

Customers



Energy efficiency and peak reduction, competitive rates, and reliability

People



Emphasis on safety, skills development, and information technology systems

Financial



Implement guiding financial principles

Assets



Balance supply and demand by investing in new assets and recovering existing assets

Operations



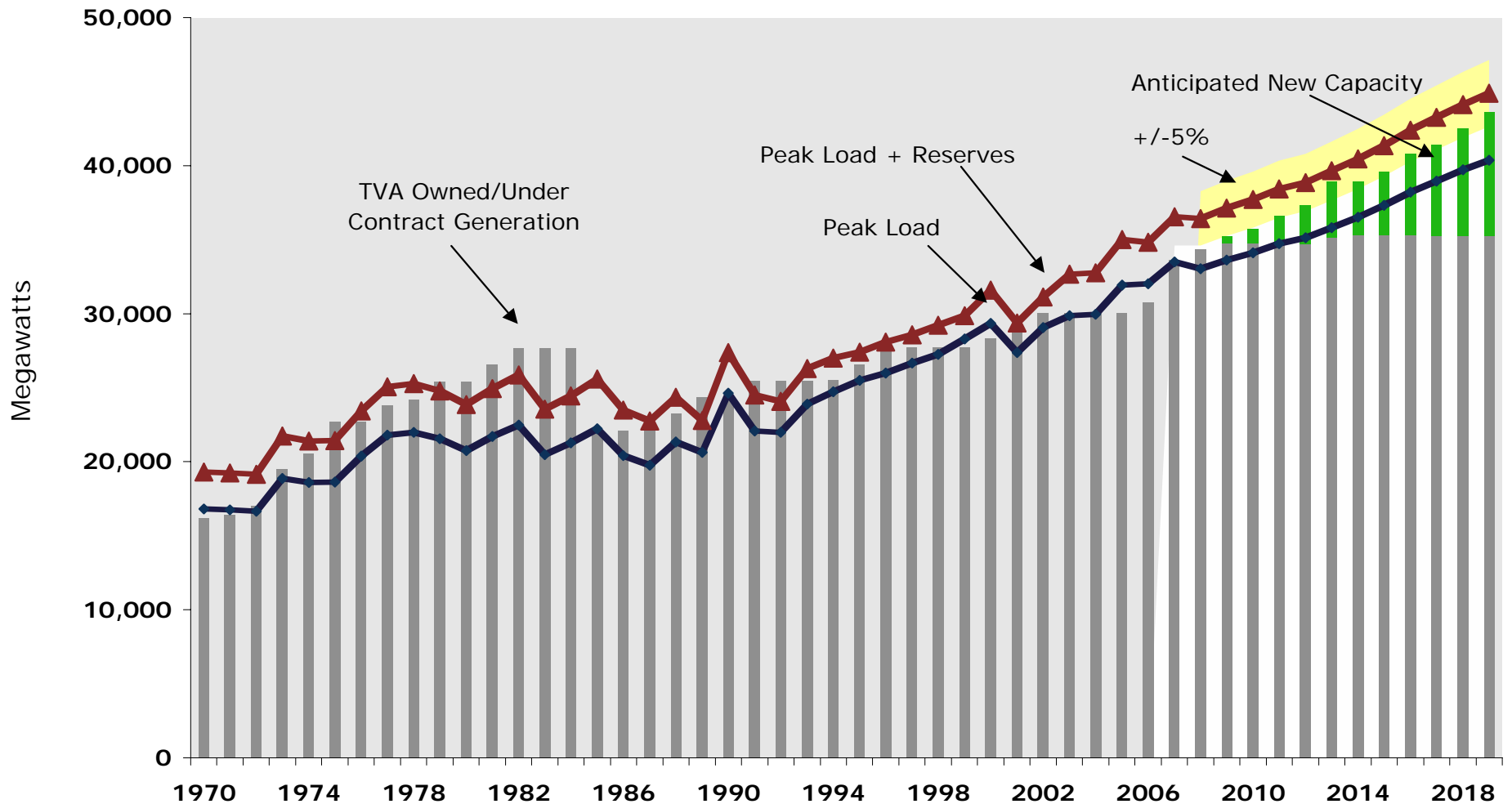
Initiatives to achieve top-quartile performance in all aspects of operations



# **Demand and Energy**



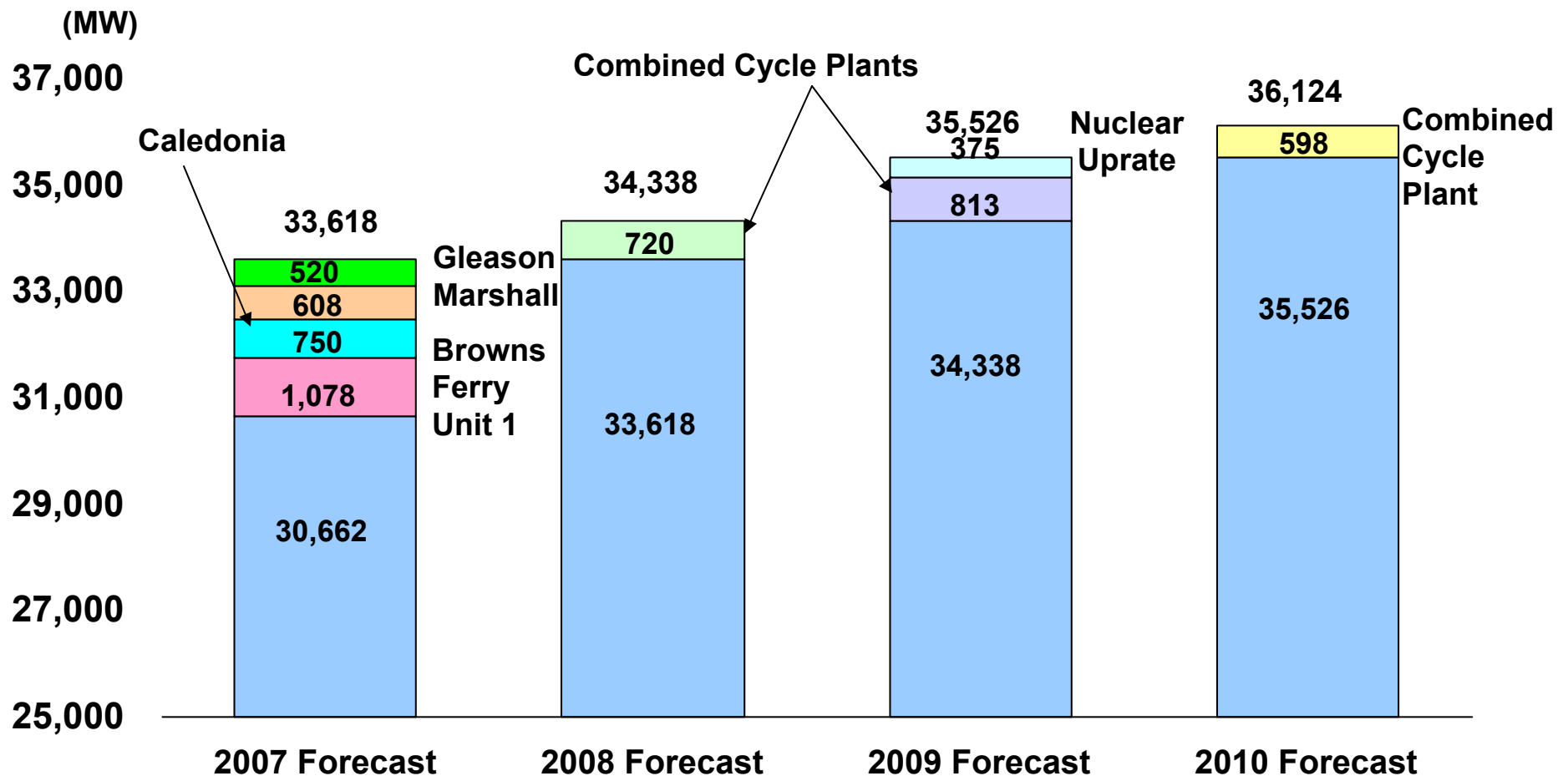
# Projected Peak Demand Growth



Capacity data from EIA-411, Summer 2005; Forecast is June 2007 PSP;

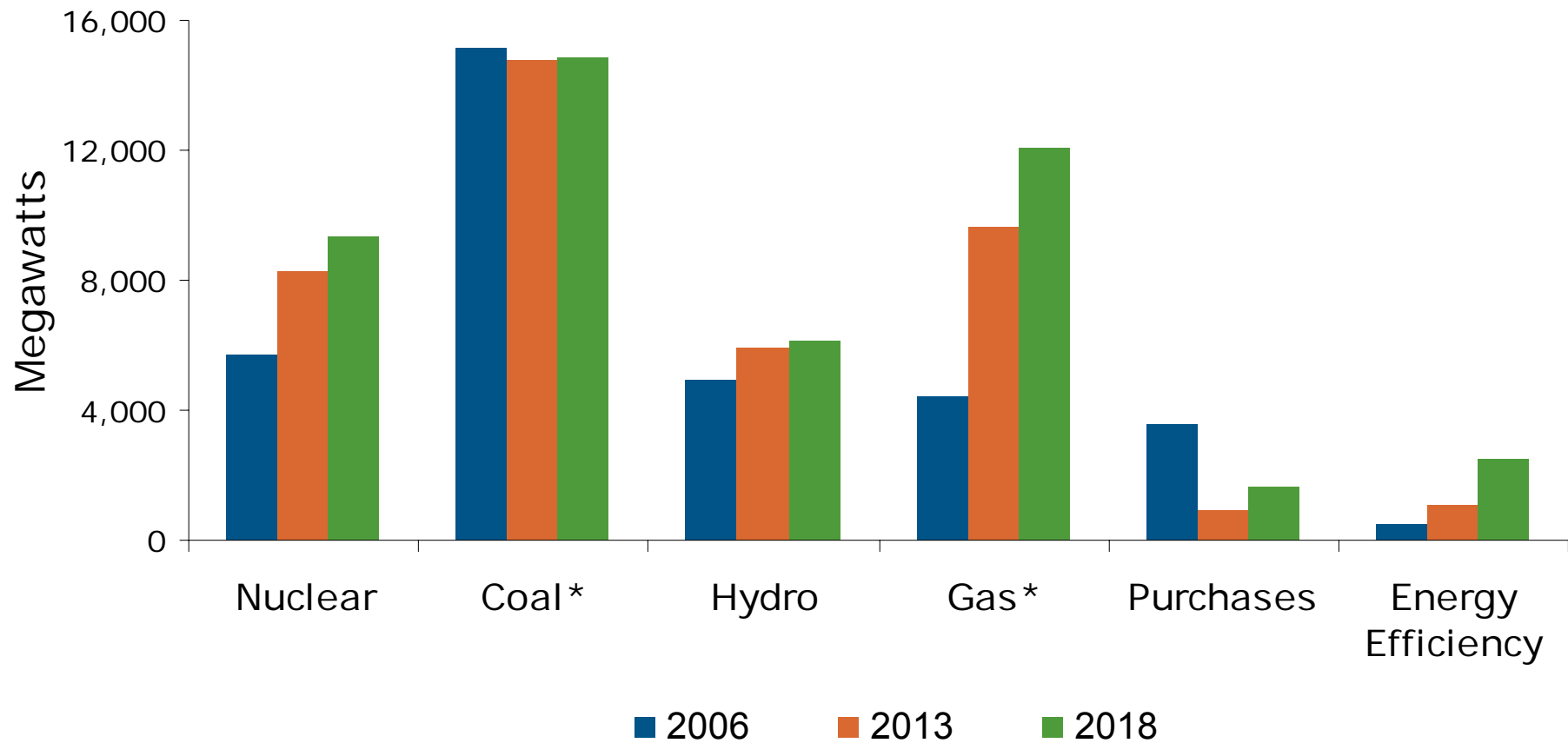


# Trend of Capacity 2007 – 2010





# Projected Capacity by Source

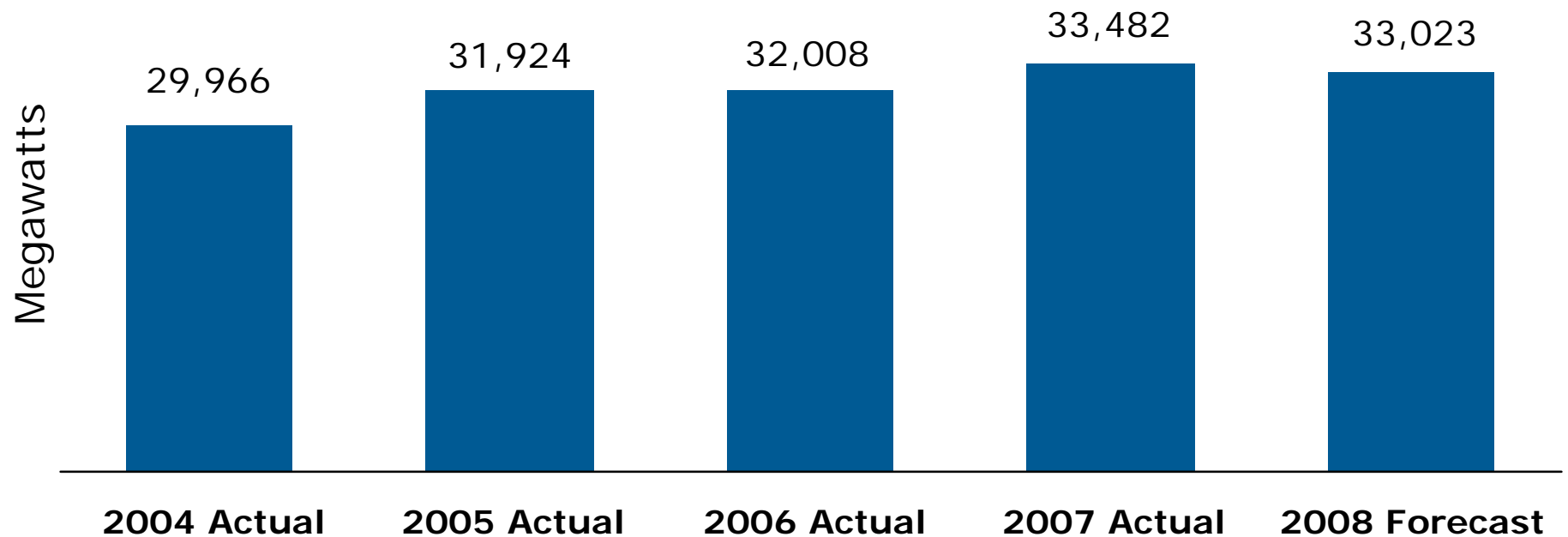


\* Include capacity under long-term contracts.



# Trend of Peak Demand

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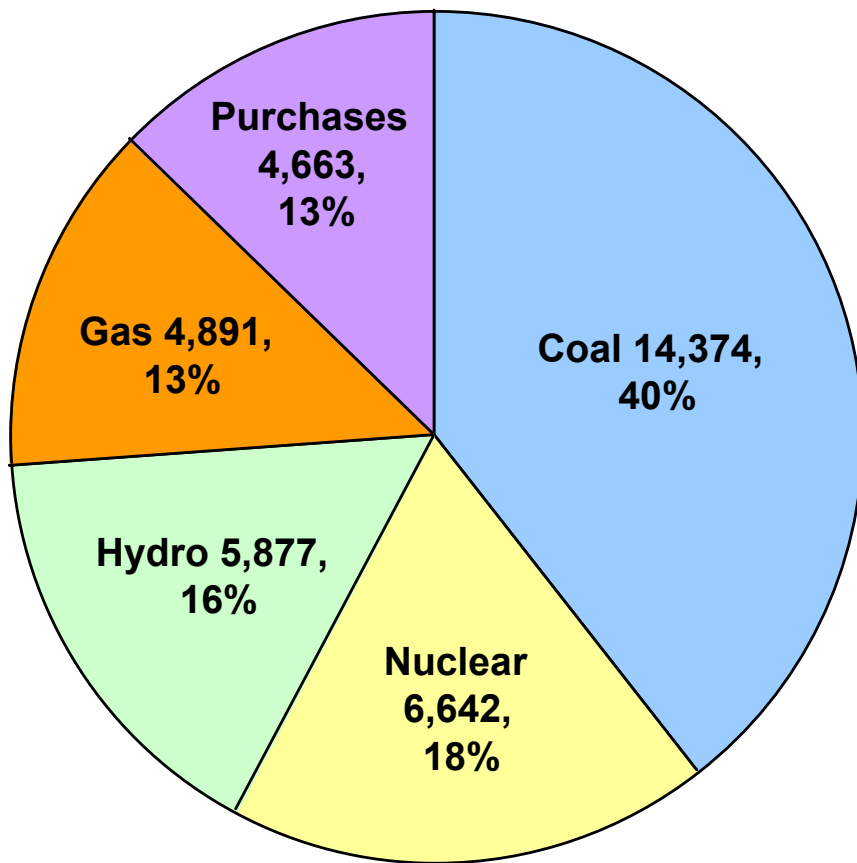
Note: Peak demands exclude reserves.





## 2008 Budget – Balance Capacity and Peak Demand

### Capacity

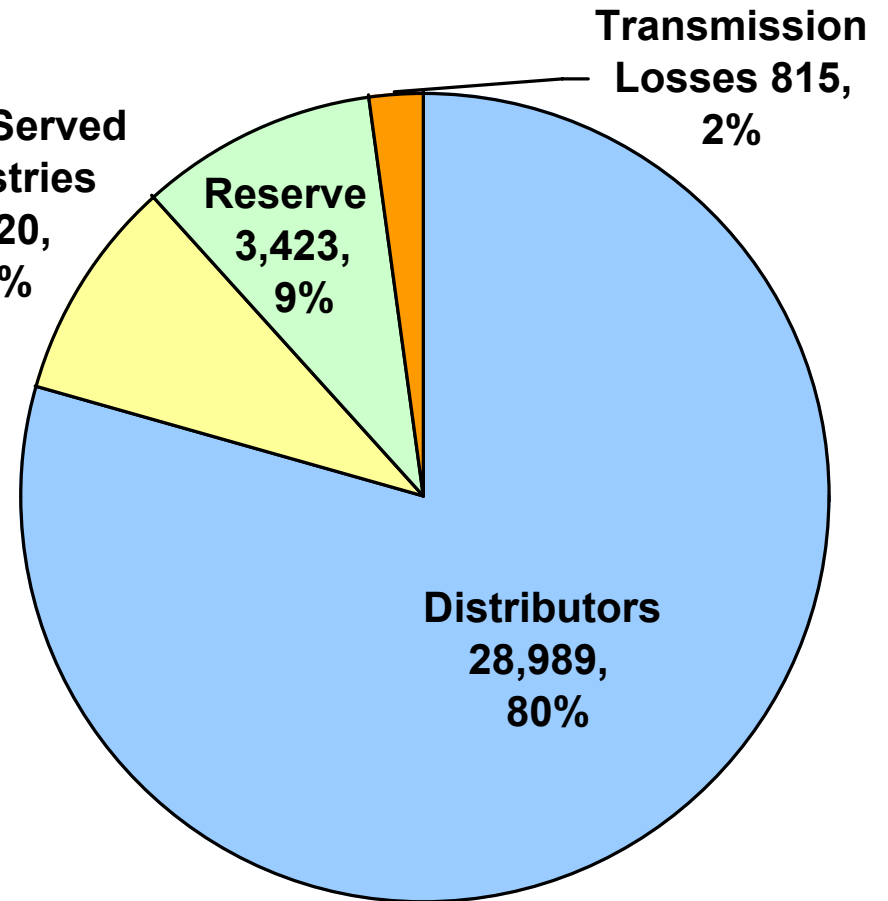


**36,447 MW**

Direct-Served  
Industries  
3,220,  
9%

**=**

### Peak Demand



**36,447 MW**

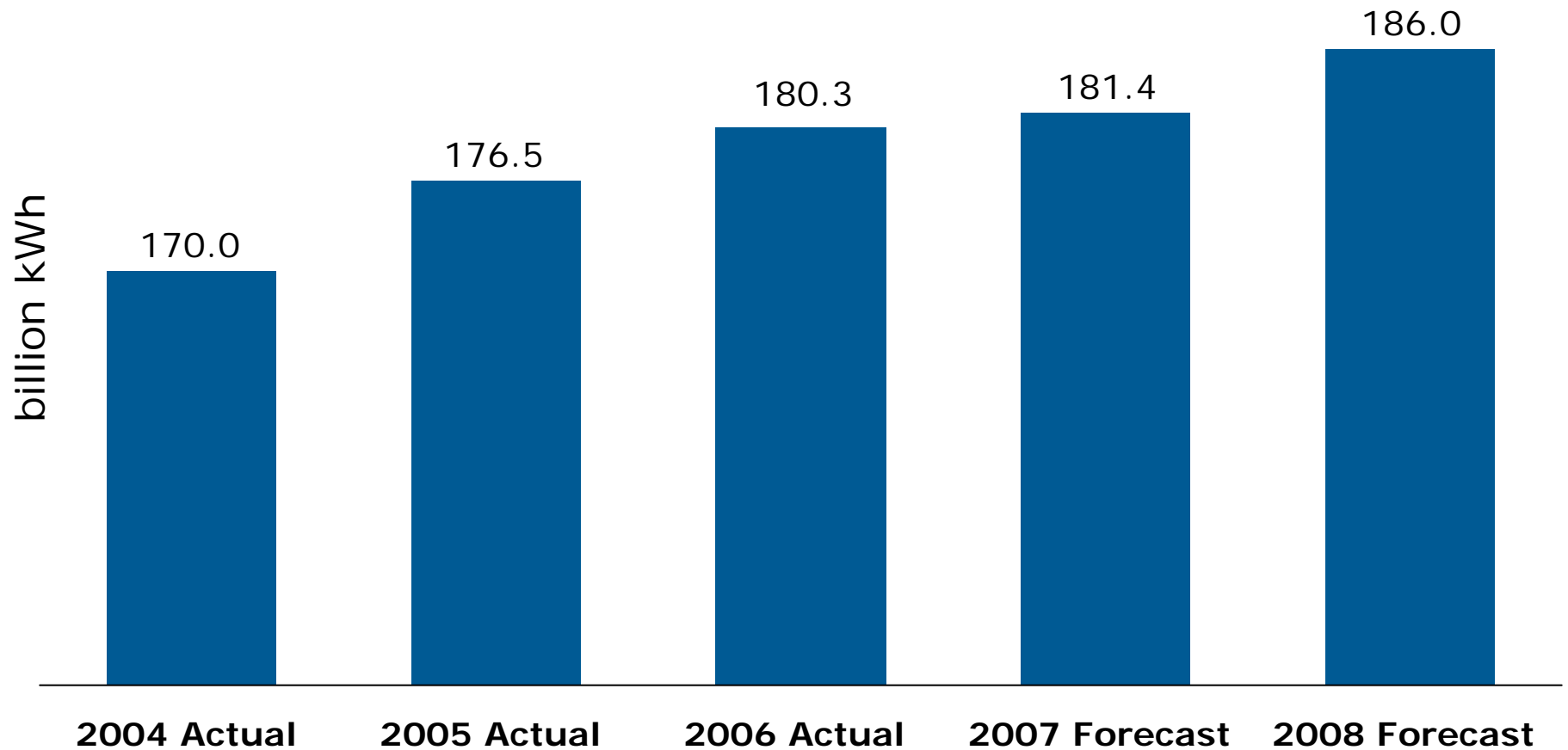


# Energy



# Trend of Energy Sales

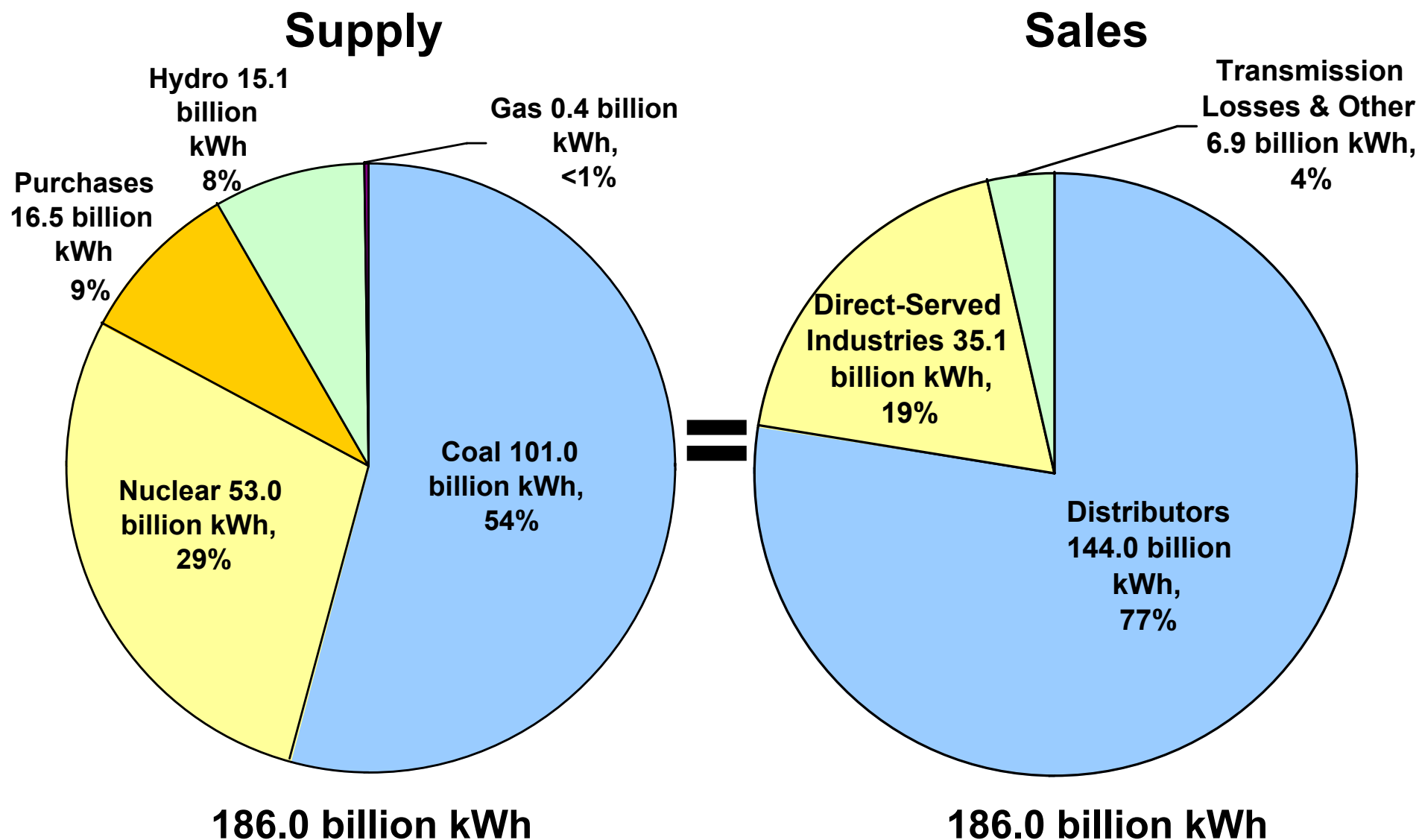
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Note: Includes transmission losses.



## 2008 Budget – Balance Energy Supply and Sales





# Financial



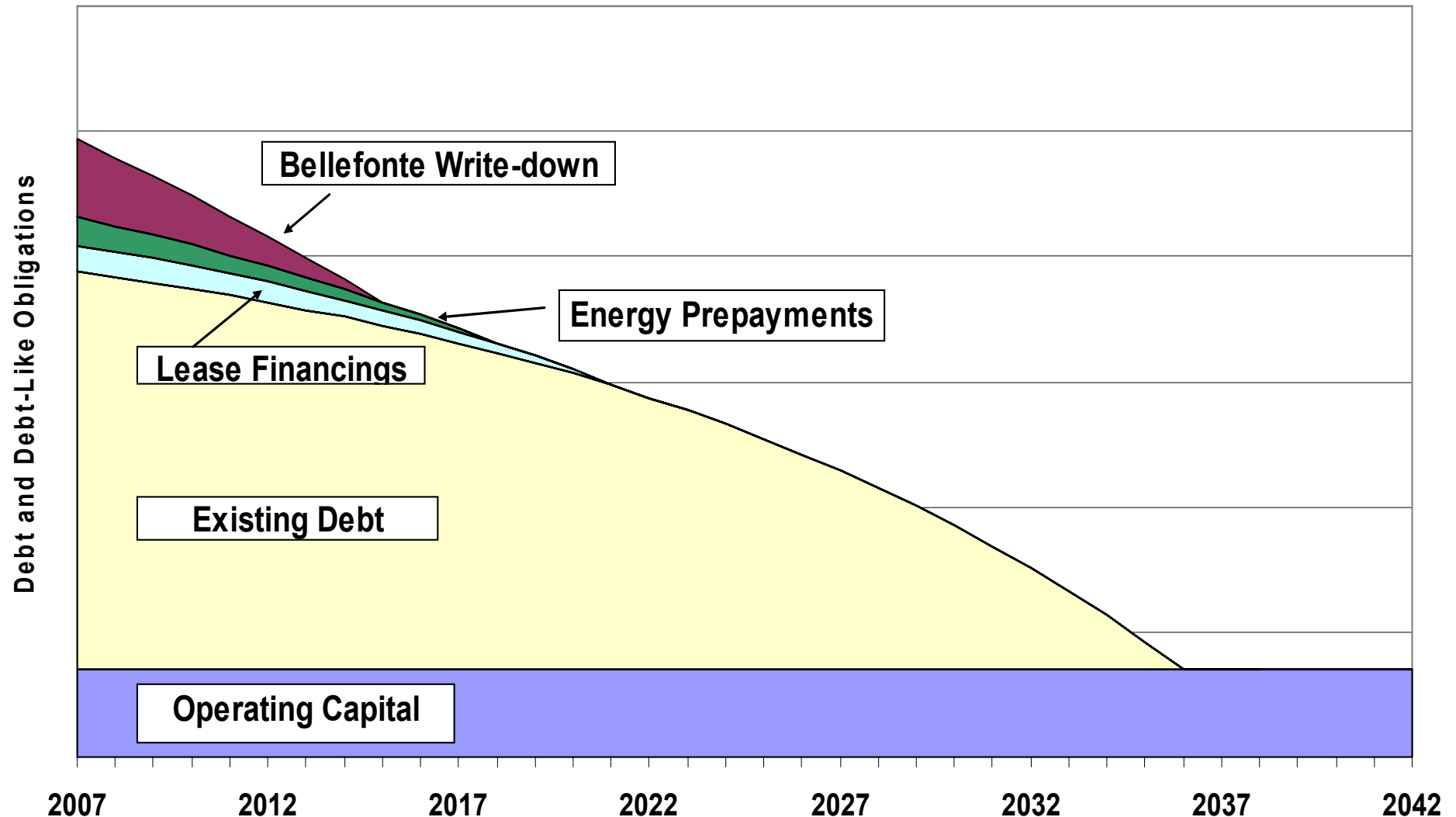
# Financial Guiding Principles

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- Pay debt-like obligations before assets are fully depreciated
- New capacity will support new debt
- Operating and Maintenance (O&M) cost grows less than MWh sales growth

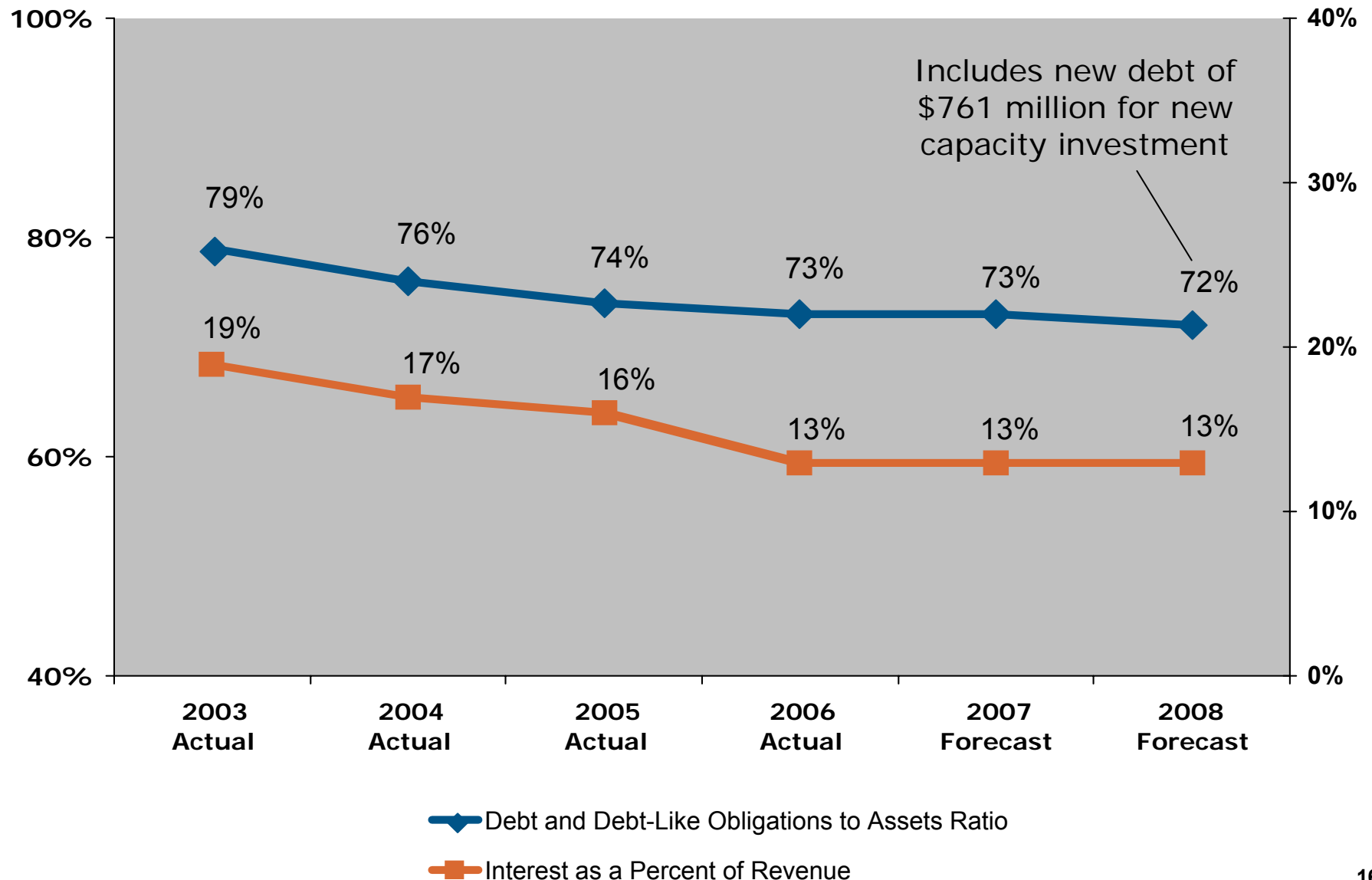


# Existing Debt and Debt-Like Obligations





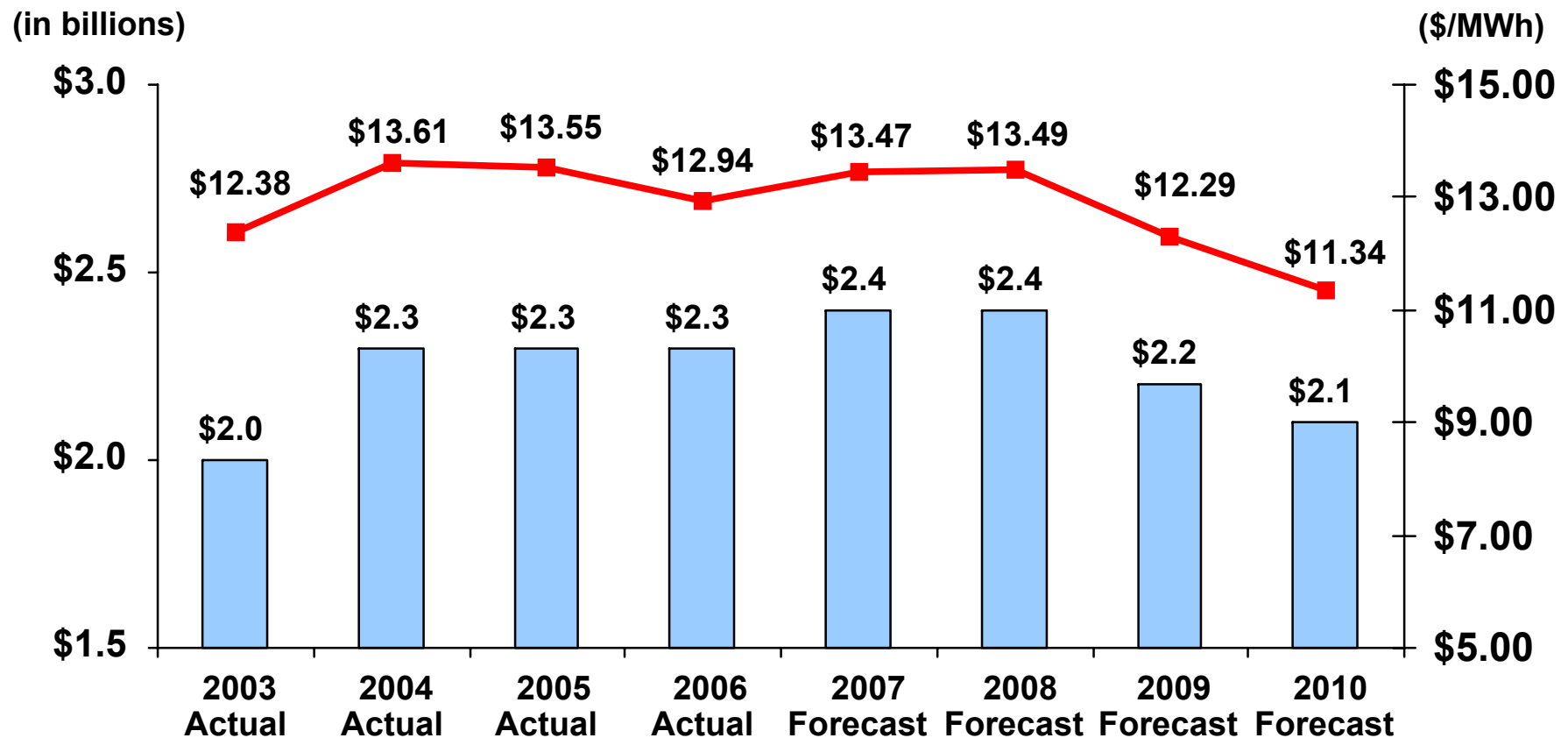
# Debt and Debt-Like Obligations to Assets Ratio 2003 – 2008







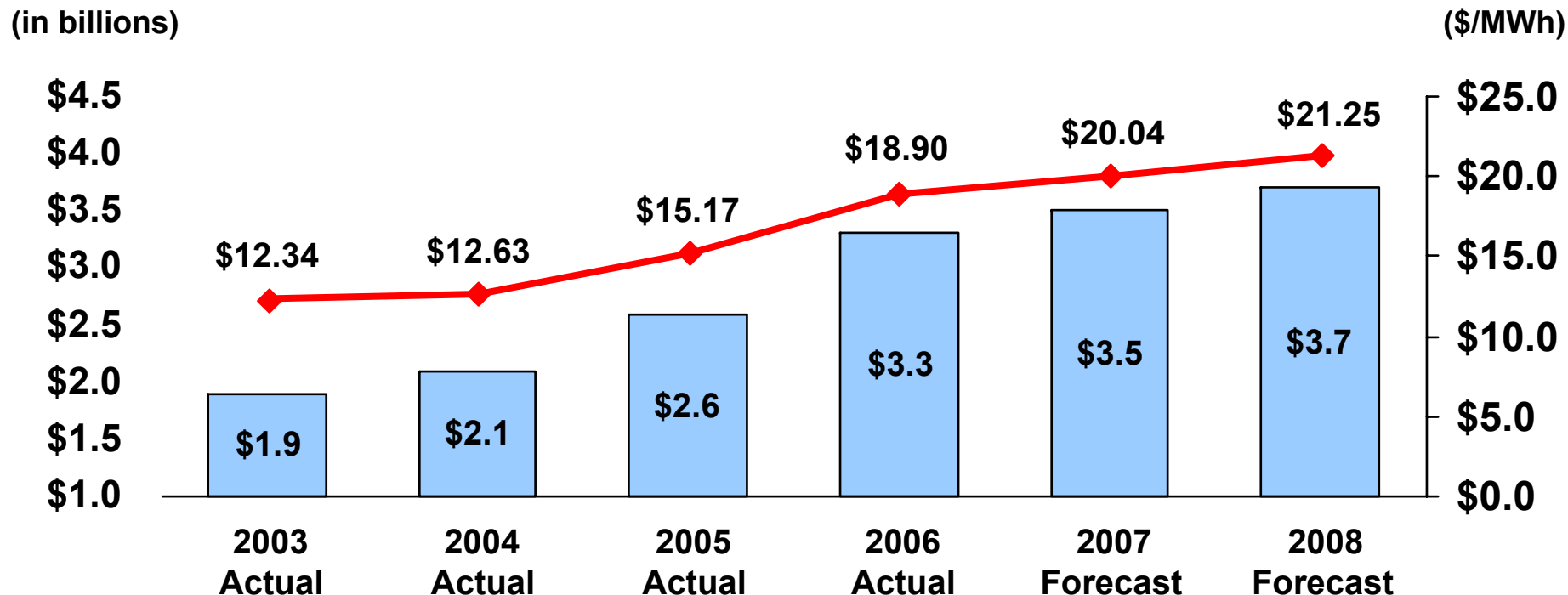
# Cost Trends – Non-Fuel O&M Expense



O&M is level from 2007 to 2008 and declines through 2010 due to the implementation of the Sustainable Performance Improvement Initiatives.



## Cost Trends – Fuel and Purchased Power Expense



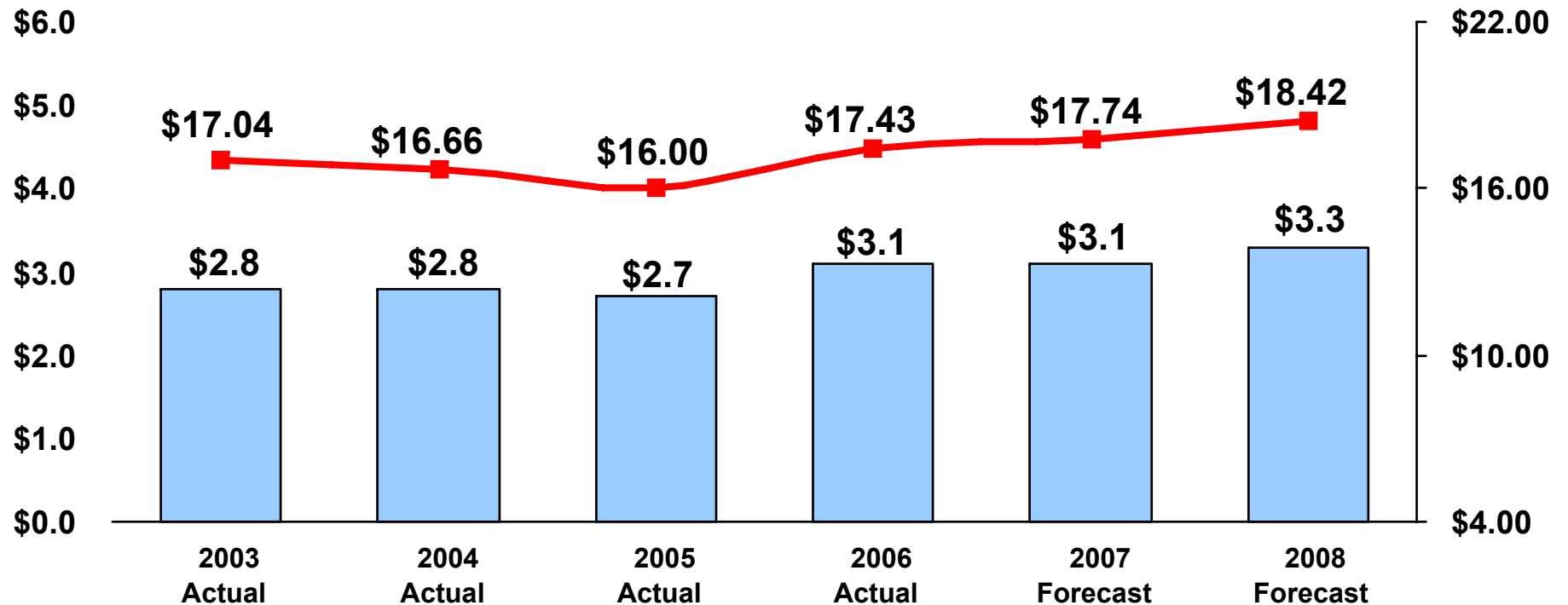
Note: Excludes Fuel Cost Adjustment



# Cost Trends – Fixed Expenses

(in billions)

(\$/MWh)





# 2008 Operating Budget Summary

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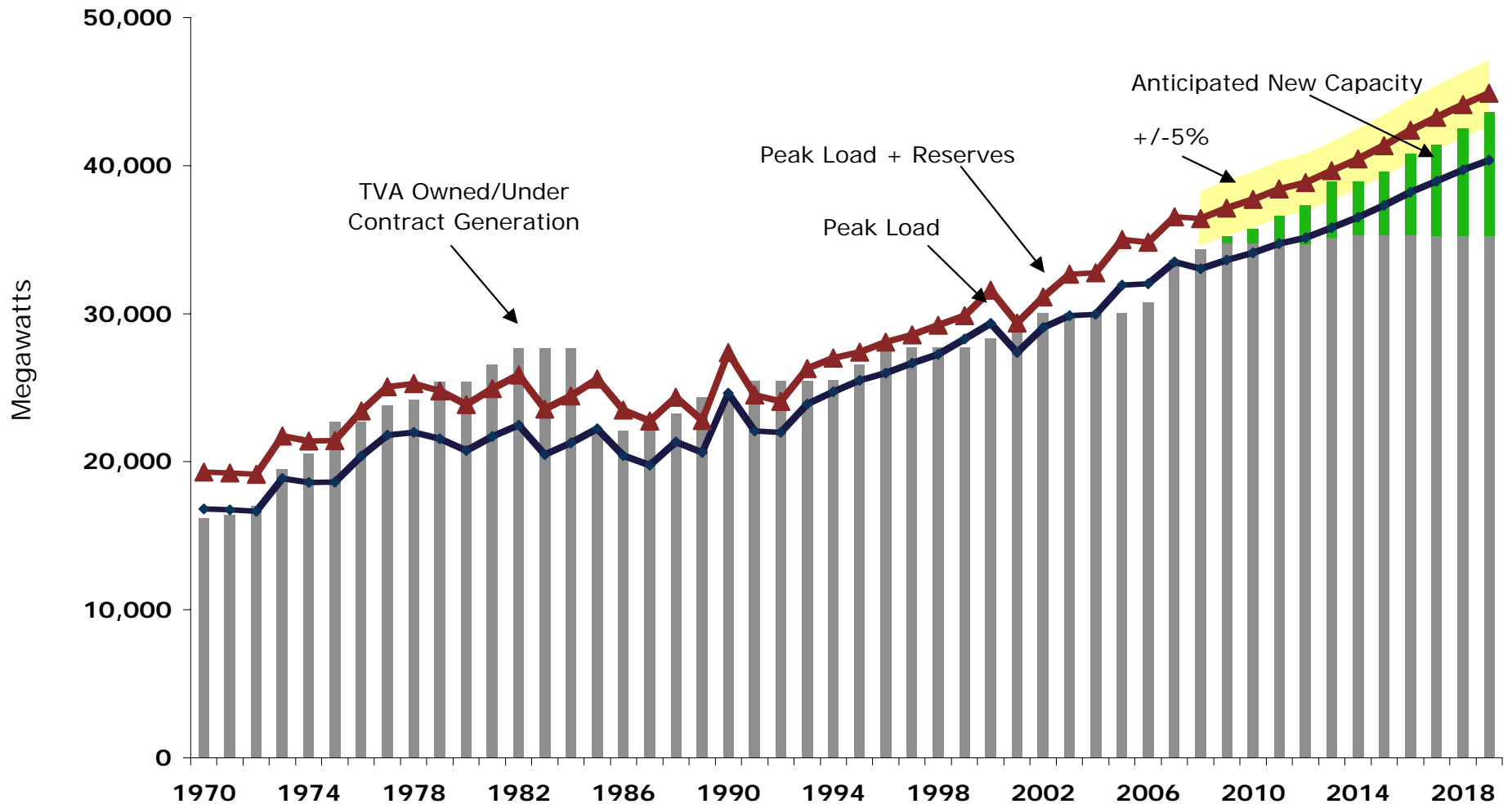
- Total Operating Budget expenses in 2008 of \$9.7 billion
- Fuel expense increases due primarily to higher average coal costs (\$127 million)
- Purchased power expense increases in 2008 due primarily to the recognition of deferred costs from 2007 (\$136 million)
- Productivity improvements (\$122 million) partially offset inflation and new scope to hold non-fuel O&M costs level from 2007 to 2008
- Fixed costs have risen about 6% (\$203 million) from 2007 to 2008



# Capital Budget



# Projected Peak Demand Growth



Capacity data from EIA-411, Summer 2005; Forecast is June 2007 PSP;



# 2008 Capital Budget Summary

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Total Capital Budget expenditures in 2008 of \$2.0 billion

	Generation		Transmission & Other		Total	
	2007	2008	2007	2008	2007	2008
New Supply Assets	\$ 367	\$ 816	\$ 166	\$ 190	\$ 533	\$ 1,006
Asset Preservation	529	486	70	76	599	562
Clean Air Projects	244	383		-	244	383
Information Technology	-	-	17	30	17	30
Total	<u>\$ 1,140</u>	<u>\$ 1,685</u>	<u>\$ 253</u>	<u>\$ 296</u>	<u>\$ 1,393</u>	<u>\$ 1,981</u>



# 2008 Capital Budget

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## Capacity Expansion

	<u>2008</u>
Watts Bar Unit 2	\$ 317
Transmission	190
Nuclear Capacity Uprates	76
Natural Gas	<u>423</u>
Total	<u><u>\$ 1,006</u></u>

## Asset Preservation

	<u>2008</u>
Fossil	\$ 260
Nuclear	154
Hydro	67
Transmission	72
Other	<u>9</u>
Total	<u><u>\$ 562</u></u>





# **Financial Statements**



## 2008 Budget – Summary Income Statements

(in billions)	2005 Actual	2006 Actual	2007 Budget	2007 Forecast	2008 Forecast
<b>Operating Revenue</b>	\$7.7	\$9.1	\$9.2	\$9.2	\$9.9
Fuel	(1.9)	(2.2)	(2.3)	(2.4)	(2.5)
Purchased Power	(0.7)	(1.1)	(1.0)	(1.0)	(1.4)
Reagents, Em. Allowances	0.0	0.0	(0.1)	0.0	(0.1)
Non-Fuel O&M	(2.3)	(2.3)	(2.3)	(2.4)	(2.4)
Depreciation, Amortization	(1.1)	(1.5)	(1.4)	(1.5)	(1.5)
Taxes and Other	(0.4)	(0.4)	(0.4)	(0.4)	(0.5)
<b>Operating Expenses</b>	(6.4)	(7.5)	(7.5)	(7.7)	(8.4)
Operating Income	1.3	1.6	1.7	1.5	1.5
<b>Interest Expense</b>	(1.2)	(1.2)	(1.3)	(1.2)	(1.3)
Extraordinary Items	0.0	(0.1)	0.0	0.0	0.0
<b>Net Income</b>	\$0.1	\$0.3	\$0.4	\$0.3	\$0.2



## 2008 Budget – Summary Statements of Cash Flows

(in billions)	2005 Actual	2006 Actual	2007 Budget	2007 Forecast	2008 Forecast
<b>Sources of Cash:</b>					
Cash from Operations	\$ 1.6	\$ 2.1	\$ 2.2	\$ 1.9	\$ 2.1
Capacity Expansion Financing	-	-	-	-	0.8
<b>Total Cash Sources</b>	1.6	2.1	2.2	1.9	2.9
<b>Uses of Cash:</b>					
Base Capital Projects	(0.5)	(0.4)	(0.4)	(0.5)	(0.6)
Clean Air Capital	(0.2)	(0.2)	(0.3)	(0.2)	(0.4)
AFUDC	(0.1)	(0.2)	(0.1)	(0.2)	(0.0)
Capacity Expansion	(0.6)	(0.6)	(0.4)	(0.5)	(1.1)
<b>Total Capital Expenditures</b>	(1.4)	(1.4)	(1.2)	(1.4)	(2.1)
Nuclear Fuel Capital	(0.1)	(0.3)	(0.3)	(0.3)	(0.3)
Existing Debt-Like Obligation Reduction	(0.3)	(0.3)	(0.5)	(0.5)	(0.8)
Other Cash (Uses)/Sources	(0.1)	(0.1)	(0.2)	(0.0)	(0.1)
<b>Total Cash Uses</b>	(1.9)	(2.1)	(2.2)	(2.2)	(3.3)
Net Change in Cash	(0.3)	0.0	0.0	(0.3)	(0.4)
Beginning Cash Balance	0.8	0.5	0.5	0.5	0.2
<b>Ending Cash Balance</b>	\$ 0.5	\$ 0.5	\$ 0.5	\$ 0.2	\$ (0.2)



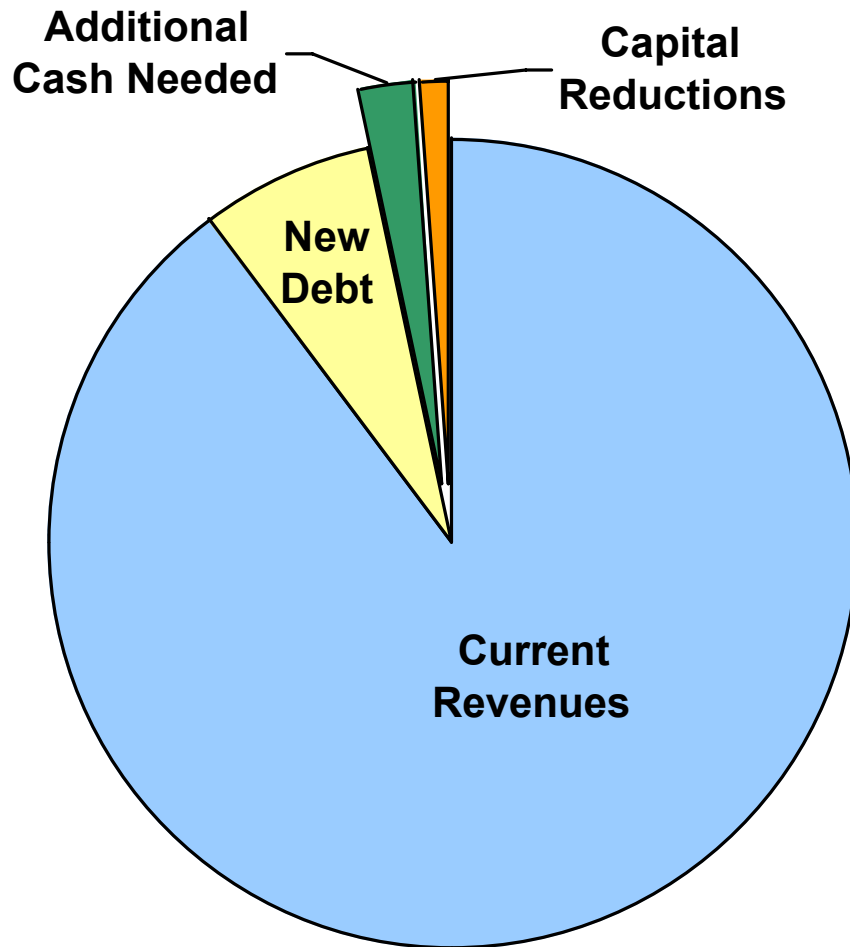
## 2008 Budget – Summary Statements of Cash Flows

(in billions)	2005 Actual	2006 Actual	2007 Budget	2007 Forecast	2008 Forecast	2008 Balanced Budget
<b>Sources of Cash:</b>						
Cash from Operations	\$ 1.6	\$ 2.1	\$ 2.2	\$ 1.9	\$ 2.1	\$ 2.4
Capacity Expansion Financing	-	-	-	-	0.8	0.8
<b>Total Cash Sources</b>	1.6	2.1	2.2	1.9	2.9	3.2
<b>Uses of Cash:</b>						
Base Capital Projects	(0.5)	(0.4)	(0.4)	(0.5)	(0.6)	(0.6)
Clean Air Capital	(0.2)	(0.2)	(0.3)	(0.2)	(0.4)	(0.4)
AFUDC	(0.1)	(0.2)	(0.1)	(0.2)	(0.0)	(0.0)
Capacity Expansion	(0.6)	(0.6)	(0.4)	(0.5)	(1.1)	(1.0)
<b>Total Capital Expenditures</b>	(1.4)	(1.4)	(1.2)	(1.4)	(2.1)	(2.0)
Nuclear Fuel Capital	(0.1)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)
Existing Debt-Like Obligation Reduction	(0.3)	(0.3)	(0.5)	(0.5)	(0.8)	(0.8)
Other Cash (Uses)/Sources	(0.1)	(0.1)	(0.2)	(0.0)	(0.1)	(0.1)
<b>Total Cash Uses</b>	(1.9)	(2.1)	(2.2)	(2.2)	(3.3)	(3.2)
Net Change in Cash	(0.3)	0.0	0.0	(0.3)	(0.4)	0.0
Beginning Cash Balance	0.8	0.5	0.5	0.5	0.2	0.2
<b>Ending Cash Balance</b>	\$ 0.5	\$ 0.5	\$ 0.5	\$ 0.2	\$ (0.2)	\$ 0.2



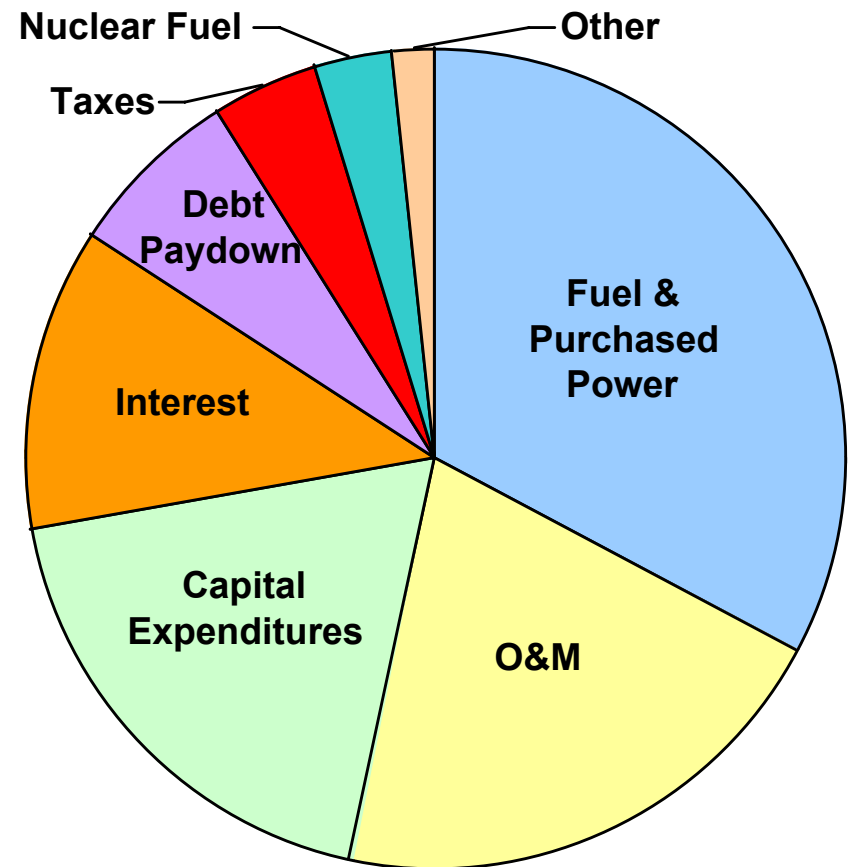
# 2008 Budget – Balance Cash Sources and Uses

## Sources



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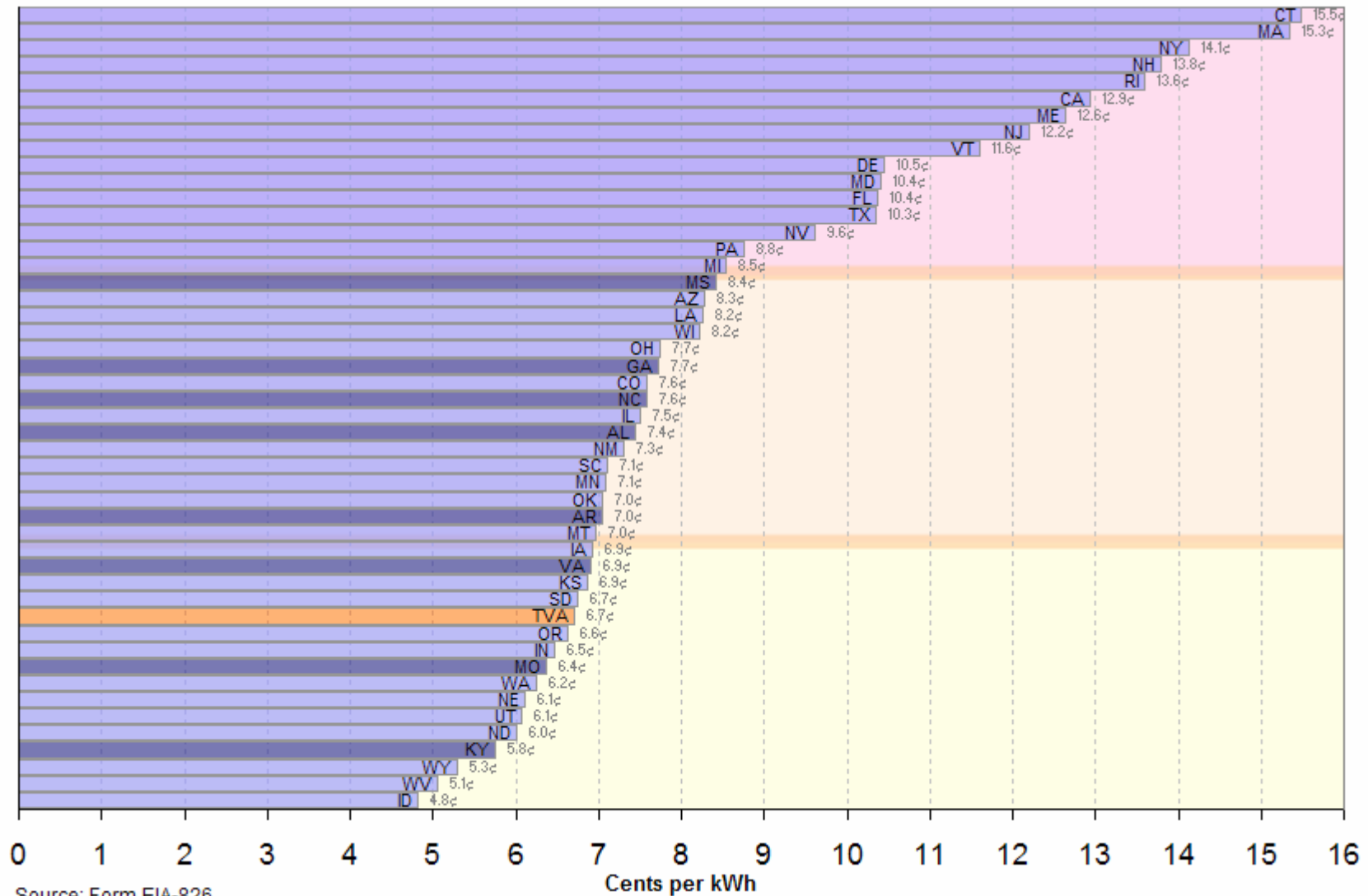
## Uses





# Customers – Competitive Rates

Average Total Retail Rates for 48 States and TVA  
12 months ended March 2007



Source: Form EIA-826



# **2008 Budget Summary**



# 2008 Budget Assessment

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- Proposed budget balances energy and capacity supply with customer demand
- Projected cash shortfall indicates the need for a single-digit rate increase during 2008 to balance cash uses and sources
- Request the TVA Board approve: the 2008 Operating Budget including the fuel and purchased power contract plan, and the 2008 Capital Budget including projects greater than \$50 million and those requiring land acquisition
- Management will work with customers to develop a recommended rate adjustment and timing for consideration by the TVA Board



